

Message Text

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17

ACTION INR-07

INFO OCT-01 EUR-12 EA-07 IO-11 ISO-00 SS-15 EB-07 COME-00

SP-02 AID-05 NSC-05 CIEP-01 TRSE-00 STR-04 OMB-01

CEA-01 AGR-05 XMB-02 CIAE-00 /086 W

----- 086703

R 020726Z MAR 76

FM AMEMBASSY BUDAPEST

TO SECSTATE WASHDC 5383

INFO AMEMBASSY BERLIN

AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY BUCHAREST

AMEMBASSY HELSINKI

AMEMBASSY LONDON

AMEMBASSY MOSCOW

AMEMBASSY OTTAWA

AMEMBASSY PARIS

AMEMBASSY PRAGUE

AMEMBASSY ROME

AMEMBASSY SOFIA

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

AMEMBASSY VIENNA

AMEMBASSY WARSAW

USMISSION NATO

USMISSION GENEVA

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3.O. 11652: N/A

TAGS: EALR, EEWT, EFIN, EINV, HU

SUBJ: FINANCING EASTERN EUROPE'S TRADE WITH THE WEST

REF: STATE 38308

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1. ALTHOUGH EMBASSY BUDAPEST INFO ADDRESSEE ON REFTEL, FOLLOWING MAY BE USEFUL FOR PROPOSED STUDY.

2. EMBASSY OFFICERS HAVE MET IN THE LAST SIX MONTHS WITH REPRESENTATIVES OF AT LEAST 20 DIFFERENT U.S. BANKS AND FINANCIAL INSTITUTIONS, RANGING FROM ALL OF THE LARGEST NEW YORK FIRMS TO SMALL BANKS IN BALTIMORE AND NASHVILLE. NONE INDICATED THAT HUNGARY HAS EXPERIENCED ANY DIFFICULTY IN MEETING ITS DEBT OBLIGATIONS. TO THE CONTRARY, THE HUNGARIAN NATIONAL BANK (MNB) IS SO INSISTENT UPON OBTAINING THE BEST POSSIBLE RATE AND TERMS THAT IT OFTEN LEAVES ITS LINES OF CREDIT UNUSED WHEN BANKS DO NOT ACCORD HUNGARY THE SAME RATE IT COULD OBTAIN BY BORROWING IN THE EURO-CURRENCY MARKETS ON PRIME TERMS.

3. ONE NEW YORK BANK, FOR EXAMPLE, EXTENDS AN OPEN \$10 MILLION LINE; INDIVIDUAL TRANSACTIONS ARE NOT REVIEWED AND APPROVED BY THE BANK. A SMALLER BANK HAS EXTENDED A \$3 MILLION COMMITMENT, BUT RESERVES THE RIGHT TO REVIEW EACH INDIVIDUAL TRANSACTION. ALL FINANCIAL INSTITUTION REPRESENTATIVES WITH WHICH EMBASSY HAS DISCUSSED HUNGARIAN SITUATION INDICATE COMPLETE SATISFACTION IN DEALINGS WITH GOH. MANY COMPLAIN ABOUT HUNGARY'S DEMAND FOR PRIME RATES AND TERMS, GIVEN THE FACT THAT HUNGARY STILL BORROWS IN THE OPEN MARKET ON A "GENERAL PURPOSE" BASIS. SOME BANKS HAVE REFUSED TO LEND UNDER THESE TERMS, BUT ARE PERFECTLY WILLING TO EXTEND CREDIT AT SLIGHTLY HIGHER RATES. BANKS WILL INCREASINGLY DEMAND MORE DETAILED DESCRIPTIONS OF THE USES OF FUNDS LOANED AND DETAILS CONCERNING CURRENT OUTSTANDING INDEBTEDNESS.

4. THE EMBASSY IS UNABLE TO OBTAIN INFORMATION ON UNREPORTED SOURCES OF FINANCING. ONE INTRIGUING RUMOR HAS THE MNB SUPPLYING STRAPPED CASH BUNDLES TO VIENNESE BANKS FOR RESALE AT BLACK-MARKET RATES -- TO OBTAIN THE CONVERTIBLE CURRENCY. FOR DATA ON LOANS FROM PETROLEUM-EXPORTING COUNTRIES SEE FOLLOWING PARAGRAPH. FOR ESTIMATES OF HUNGARY'S HARD CURRENCY DEBT EMBASSY LIMITED OFFICIAL USE

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USES COMPILATIONS OF CHASE MANHATTAN ECONOMIST LAWRENCE BRAINARD, AS DO MOST WESTERN BANKERS. ECONOFF DISCUSSED BRAINARD'S METHOD WITH HIM IN NEW YORK IN JULY 1975 AND CONCLUDES HIS CALCULATIONS ARE MOST RELIABLE AVAILABLE.

5. FOR DETAILS OF HUNGARY'S PAST HARD CURRENCY BORROWINGS, RATES, SCHEDULED REPAYMENTS AND TERMS,

EMBASSY REFERS DEPARTMENT TO FOLLOWING BUDAPEST REPORTS. (P) INDICATES THAT PROSPECTUS IN EMBASSY FILES, AND MOST LIKELY IN WASHINGTON ALSO. THESE PROSPECTUS CONTAIN DETAILS ABOUT EACH RESPECTIVE CREDIT.

A. 1971: \$25 MILLION 10-YEAR BONDS AT EIGHT AND THREE-FOURTHS PERCENT. BORROWING LED BY MORGAN GRANFEL AND NATIONAL WESTMINSTER (P). REPORTING CABLE UNAVAILABLE AT EMBASSY BUDAPEST.

B. 1972: \$50 MILLION BOND ISSUE, LED BY MORGAN GRANFEL AND NATIONAL ESTMINISTER. SEE 72 BUDAPEST 2362, 2257, 2116. (P).

C. 1973: \$50 MILLION LOAN FROM JAPANESE BANKS, LED BY LOEB, RHODES IN NEW YORK. SEE 73 BUDAPEST 3884, 3787.

D. 1974:

(1) \$50 MILLION LOAN LED BY VIENNA CREDITANSTALT. SEE 74 BUDAPEST 0777.

(2) \$100 MILLION LOAN, LED BY KUHN, LOEB AND CHEMICAL NEW YORK. SEE 74 BUDAPEST 1243 AND 1714.

(3) \$40 MILLION KUWAITI LOAN. SEE 74 BUDAPEST 3363 AND 3288. (P).

E. 1975:

(1) \$100 MILLION LOAN, LED BY FIRST NATIONAL CITY BANK. SEE 75 BUDAPEST 0601 AND 0398.

(2) 100 MILLION DM LOAN. SEE 75 BUDAPEST 2232. PROSPECTUS APPEARED IN AUGUST 29-30, 1975 ISSUE OF HANDELSBLATT; EMBASSY POUCHING COPY TO EUR/EE.

(3) \$60 MILLION KUWAITI LOAN. SEE 75 BUDAPEST 2771.

(4) \$150 MILLION LOAN LED BY BANK OF AMERICA. SEE 75 BUDAPEST 3940 AND 3501. EMBASSY IN PROCESS OF OBTAINING PROSPECTUS AND WILL FORWARD COPY TO DEPARTMENT.

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6. EMBASSY REFERS DEPARTMENT TO 75 BUDAPEST 3824 CONCERNING HUNGARY'S GENERAL CREDIT RATING. MUDD

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